

TRANSPORTATION REPORT

From: Terry Whiteside

To: Montana Wheat & Barley Committee

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Rail Recap - 3rd Quarter - Earnings Report In a Nutshell - Volume Down (Except CN) But Earnings Are Approaching or Exceeding Record Levels



Union Pacific Corporation (NYSE: UNP) today reported 2011 third quarter net income of \$904 million, or \$1.85 per diluted share, compared to \$778 million, or \$1.56 per diluted share, in the third quarter 2010.

All-Time Quarterly Records

- Diluted earnings per share improved 19 percent to \$1.85.
- Operating revenues totaled \$5.1 billion, up 16 percent.
- Operating income totaled \$1.6 billion, up 13 percent.

Union Pacific Corporation (NYSE: UNP) today reported 2011 third quarter net income of \$904 million, or \$1.85 per diluted share, compared to \$778 million, or \$1.56 per diluted share, in the third quarter 2010.

"Union Pacific delivered top and bottom line record results in the third quarter," said Jim Young, Union Pacific chairman and chief executive officer. "We're clearly demonstrating how Union Pacific's diverse franchise and value-added service offerings are driving record free cash flow and improved financial returns for our

shareholders."

Union Pacific Corporation (NYSE: UNP) announced that its Board of Directors voted on November 20th to increase the quarterly dividend on the company's common shares by 26 percent to 60 cents per share. The increased dividend is payable January 2, 2012, to stockholders of record on November 30, 2011.



Revenue rose 13 percent on 1.9 percent traffic decline in third quarter

BNSF Railway's profit rose 8.5 percent year-over-year to \$766 million in the second quarter, as the railroad's revenue rose 13 percent despite traffic falling 1.9 percent.

Quarterly Results

- Revenues increased 13% (\$4.9 Billion) on a 1.9% traffic decline
- Operating expenses increased 14% year (\$3.5 Billion) over year
- Consumer product traffic rose 8.9 percent, coal shipments fell 11.2 percent, industrial product traffic was flat and agriculture shipments fell 12 percent

The railroad attributed the revenue gain to higher fuel surcharges and improved yields, a combination of higher pricing and better utilization, according to a filing with the Securities and Exchange Commission. Revenue rose to \$4.9 billion and operating expenses increased 14 percent year-over-year to \$3.5 billion.

Reflecting the strong pricing power all major railroads have been showing, BNSF's average per-shipment revenue rose 14.8 percent to \$2,016. The company's consumer product traffic rose 8.9 percent, coal shipments fell 11.2 percent, industrial product traffic was flat and agriculture shipments fell 12 percent.



CSX Corporation (NYSE: CSX) announced third quarter net earnings of \$464 million, or \$0.43 per share, versus \$414 million, or \$0.36 per share, in the same period last year. This is a 19 percent improvement in earnings per share and a record third quarter for the company.

All-Time Quarterly Records

Operating income improves to \$878 million
Earnings per share increases 19 percent to 43 cents
Operating ratio remains strong at 70.4 percent

“Even as the economy moderated, CSX delivered strong financial results while investing in additional resources to strengthen customer service,” said Michael J. Ward, chairman, president and chief executive officer. “This helped position our business, our customers and our communities for growth in the near- and long-term.”

Revenue in the quarter improved 11 percent from the prior year to nearly \$3 billion, with increases across all of the company’s major markets. These results reflect the compelling value of freight rail transportation and fuel recoveries that offset higher costs. The higher revenue, coupled with the company’s ongoing focus on profitable growth, increased operating income to a third quarter record of \$878 million and produced an operating ratio of 70.4 percent.

At the same time, the company expects to achieve its target of a 65 percent operating ratio by no later than 2015



Norfolk Southern Corporation today reported record third-quarter net income of \$554 million, 24 percent higher compared with \$445 million for the same period of 2010. Diluted earnings per share were a record \$1.59, up 34 percent, compared with

\$1.19 per share in the third quarter of 2010.

All-Time Quarterly Records

Operating income improves to \$878 million
Earnings per share increases 19 percent to 43 cents
Operating ratio remains strong at 70.4 percent

“Norfolk Southern produced another outstanding quarter, setting all-time records for income from operations and earnings per share, while also establishing third-quarter records for net income and operating ratio,” said Norfolk Southern CEO Wick Moorman. “We continue to see modest improvement in most of our business groups, and we remain focused on the long-term enhancement of our franchise.”

Railway operating revenues of \$2.9 billion rose 18 percent compared with the same period of 2010, primarily as the result of a 14 percent increase in revenue per unit.



Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) announced its third-quarter 2011 results with reported net income of \$186.8 million and diluted earnings per share of \$1.10, inclusive of \$0.04 per share of expenses related to the early redemption of its 2013 Notes.

THIRD-QUARTER 2011 RESULTS COMPARED WITH THIRD-QUARTER 2010

- Total revenues were \$1.3 billion, an increase of \$55.4 million
- Operating expenses were \$1.0 billion, an increase of \$68.5 million
- Average fuel price increased 47 per cent to \$3.44 U.S. dollars per U.S. gallon
- Operating income was \$324.6 million, a decrease of \$13.1 million
- Net income was \$186.8 million, a decrease of \$10.5 million
- Diluted earnings per share were \$1.10 per share, a decline of \$0.07 per share or a decline of \$0.03 per share exclusive of the early redemption of the 2013 Notes

“We currently see strength in our bulk franchise, but remain vigilant in monitoring economic signals from Asia,” stated Fred Green President and CEO. “We are focused on sustaining and improving service and productivity through investments in locomotives, infrastructure, people and technology.”



Third-quarter 2011 highlights

- Net income increased 19 per cent from the year-earlier quarter to C\$659 million, with diluted earnings per share (EPS) rising 23 per cent to C\$1.46. The results included an after-tax gain of C\$38 million, or C\$0.08 per diluted share, on the sale of substantially all of the assets of IC RailMarine Terminal Company.
- Excluding the gain on the sale, adjusted net income increased 12 per cent over the year-earlier quarter to C\$621 million, with adjusted diluted EPS rising 16 per cent to C\$1.38. (1)
- Revenues for third-quarter 2011 rose nine per cent to C\$2,307 million, while **carloadings grew by four per cent and revenue ton-miles increased six per cent.**
- Operating income increased 12 per cent to C\$938 million.
- CN's operating ratio was 59.3 per cent, a 1.4-point improvement over the 60.7 per cent operating ratio for third-quarter 2010.
- Free cash flow for the first nine months of 2011 was C\$1,328 million, compared with C\$938 million for the same period of 2010. (1)
- CN to launch a new share repurchase program on Oct. 28, 2011, to buy back up to 17 million common shares.

Claude Mongeau, president and chief executive officer, said: "CN posted impressive third-quarter results, driven by record carloadings and revenues, strong operational execution, and rigorous cost control. The four per cent rise in carloadings and nine per cent increase in revenues outpaced general economic activity during the quarter, reflecting CN's improved service and market positioning."

"All commodity groups posted revenue gains in the quarter, benefiting from modest growth in overall economic activity, as well as from CN's continued focus

on supply chain collaboration and service innovation with its customers and transportation partners."

Weak Exports Hurting Grain Sales According to Railroads



An 18.3 percent drop in latest week follows
14.2 percent October drop

Grain transport on U.S. railroads fell
18.3 percent year-over-year in the past week,
extending a steep slide in shipping from farms
that the Association of American Railroads

says is the result of weaker exports.

The decline the AAR (American Association of Railroads) measured the week ending Nov. 12 was the largest since 25.6 percent dive three weeks ago, part of a slump that has come just as grain shipments should be surging during the fall harvest.

Grain shipments have improved slightly on a week-to-week basis, but the foundation commodity for agriculture shipping is on pace for a double-digit decline in November after falling 14.2 percent year-over-year in October.

Citing data from the U.S. Department of Agriculture, the AAR said rail deliveries of grain to ports "were 30 percent to 40 percent below where they were at the same point in 2010. "

The U.S. Grains Council says the country's grain exporters are hurting in part from the impact of the long delays in approving and implementing free trade agreements with Colombia, Panama and South America. The group said U.S. exporters are losing market share in the Caribbean Basin.

Railroads have reported the declines in grain carloads but strong pricing has

kept their revenue on the agriculture shipments solid. Union Pacific said in its report on the third quarter that agricultural carloads fell 3 percent from the previous year but that a 12 percent increase in average revenue per car drove revenue from the commodities up 3 percent.